



ACT
Government

Environment, Planning and
Sustainable Development

SENSITIVE: CABINET

MINISTERIAL BRIEF

To: Minister for the Environment and Heritage

Cabinet No.:19/333

Rec'd Minister's Office .../.../...

From: Executive Group Manager, Environment

Subject: Lodgement of Economic Development Subcommittee item 'ACT Government participation in the Murray Darling Basin Water Infrastructure Program.'

Critical Date: Wednesday 26 June 2019

Critical Reason: The Discussion Paper must be lodged with Cabinet Office on or before 10am 26 June 2019 for consideration by the Economic Development Subcommittee on 3 July 2019.

- DG .../.../...
- DDG, Land Strategy and Environment .../.../...

Purpose

To seek your agreement to lodge the final Discussion Paper and associated documents at Attachment 1.

Recommendations

That you:

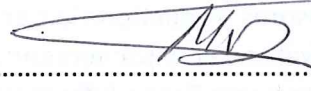
1. **Note** the information contained in this brief; and

Noted / Please Discuss

2. **Agree** to final lodge the Discussion Paper and associated documents at Attachment 1.

Agreed / Not Agreed / Please Discuss

Mick Gentleman MLA

 26/6/19

Minister's Office Feedback

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Background

1. The discussion paper at Attachment A, is intended to provide the Economic Development Subcommittee of Cabinet with information about:
 - a) opportunities for the ACT community to increase water efficiency to become more resilient to the impacts of drought, water shortages and climate change; and
 - b) securing Commonwealth funding for water efficiency measures, along with catchment and waterway improvement activities.
2. The paper provides an outline of the methodology proposed for transferring water entitlements under the Murray-Darling Basin Water Infrastructure Program (MDBWIP) and the Shared Reduction Amount (SRA) in a way that will mitigate impacts on the long term water security of the ACT.
3. It is intended that a subcommittee of Cabinet will be provided with further briefings as the initiative proceeds, including the proposed ultimate level of the ACT's participation in the MDBWIP once the due diligence business cases (see points 16, 17 and 23 below) have been completed. It is anticipated that the next update with this information will be provided to an Economic Development Subcommittee of Cabinet in the first half of 2020.

Murray-Darling Basin Water Infrastructure Program (MDBWIP)

4. The Murray Darling Basin Plan includes a commitment to seek 450 gigalitres¹ (GL) of additional environmental water recovery to improve environmental outcomes within the Basin. The additional 450 GL of environmental water is to be achieved with "neutral or positive socio-economic outcomes" by 30 June 2024. 62 GL of the 450 GL target is to be recovered by 30 June 2019.
5. To facilitate the achievement of the targets the Commonwealth has established the Murray-Darling Basin Water Infrastructure Program (MDBWIP). This \$1.5 billion program involves the Commonwealth providing funding for water efficiency measures in exchange for water entitlements for environmental flows and runs until 2024.
6. At the Murray-Darling Basin Minco (8 June 2018) the ACT committed to investigating water efficiency measures for a 15 gigalitre (GL) efficiency contribution. The basis of the ACT's commitment was to investigate urban water efficiency improvements integrating water security measures (reductions in per capita water use and establishment of interstate water trade) with waterway improvement activities (incorporating the principles of the Territory's ACT Water Strategy; Green Infrastructure Strategy; Climate Change Strategy and consideration of work on Wellbeing and Liveability principles).

Shared Reduction Amount

7. The shared reduction amount (SRA) is a mechanism under the Basin Plan to source water to improve environmental outcomes. The ACT's required contribution is 4.9GL of surface water.
8. In early 2019 the Commonwealth Department of Agriculture and Water Resources (DAWR) advised EPSDD that the 2013 transfer of 4.9GL of Murrumbidgee Regulated River (NSW) water rights from ICON Water (then ACTEW), which was previously considered to be the Territory's contribution towards the Murray Darling Basin Plan's (Basin Plan) SRA did not meet the legal requirements of the Basin Plan. This occurred despite earlier written agreements at

¹ A gigalitre (GL) is equal to 1000 megalitres (ML).

Director-General level (ACT, NSW and Commonwealth) and recognition of ACT having met its commitments in Commonwealth water recovery registers.

9. Commonwealth advice is that the 2013 transfer of entitlements was not from within the ACT's sustainable diversion limit (SDL) resource unit, and hence it therefore does not meet the legal requirements of the Murray Darling Basin Plan.
10. For the ACT to meet its commitment to the Basin Plan, the Commonwealth Government is now proposing an additional 4.9GL of water rights be transferred from within the ACT.
11. DAWR has advised that it is a requirement of the Basin Plan to resolve the SRA prior to the ACT Water Resources Plan being accredited by the Commonwealth Minister for Water Resources.
12. In correspondence between yourself and the Federal Minister for Water Resources the Hon David Littleproud² MP, the Commonwealth has offered to remedy this situation by purchasing an additional 4.9 GL via the MDBWIP, including providing the 1.75 multiplier on market price. This transfer of 4.9GL to the MDBWIP would also constitute part of the 15GL mentioned in point 3 above.

Maintaining the ACT's water security.

13. ACT water security is measured using two criteria that form the key components of the ACT meeting the program's "neutral or positive socio economic impact" test being:
 - water levels in dams - the <5% (1 in 20 year) water restrictions Level of Service target;
 - limiting water use to sustainable levels – ensuring water use remains below the ACT's sustainable diversion limit.
14. The ACT's participation in the MDBWIP will be implemented in a manner that maintains the long-term water security for ACT water users. In addition to this, the investment from the program will make the ACT more resilient to the impacts of drought, poor water quality in waterways and catchment areas, future water shortages and the effects of climate change

Issues

Murray-Darling Basin Water Infrastructure Program (MDBWIP)

15. In February 2019 you wrote to the Hon David Littleproud MP providing a "working draft" of a Canberra Water Savings Prospectus of possible water savings.
16. In April 2019 Minister Littleproud responded, providing an offer for funding to develop business cases for the following programs, which you subsequently agreed on 15 May 2019:
 - Infrastructure renewal and maintenance;
 - Water sensitive urban design mandatory standards and planning codes;
 - Stormwater harvesting and reuse;
 - Demand management (education and practice change); and
 - Sustainable development.

² Since the May 2019 Federal election the Hon. David Littleproud MP title is Minister for Water Resources, Drought, Rural Finance, Natural Disasters and Emergency Management.

SENSITIVE : CABINET

17. Once completed the business cases will quantify the quantum of water to be saved by each activity, specify the initiatives to be implemented, costs of implementation and identify any risks to the ACT.
18. Under this program, transferring water in exchange for implementing efficiency measures attracts a premium of up to 1.75 times the market price of a permanent water trade. The current market price for high security water in the NSW Murrumbidgee is in the vicinity of \$6 million to \$7 million/GL (\$10.5 million to 12.25 million/GL when factored up with the 1.75 multiplier), noting that the market price for water entitlements is currently historically high due to the supply and demand effects of the current drought.
19. A suitably qualified professional valuation organisation has been engaged to provide the directorate with advice on the market value for ACT water entitlements.
20. Commonwealth funding is provided via a head Project Agreement and is supported by a number of schedules that describe the detail of agreed activities to be undertaken, quantum of water savings and the estimated cost. Funds will be reconciled on an "actuals" basis and progressively deducted from the nominated amount in the head agreement.
21. You have co-signed with Minister Littleproud, a funding schedule for the programs mentioned in point 16 above and agreement has been obtained from the Commonwealth for the creation of an additional three schedules, being:
 - the transfer of 4.9GL for the SRA;
 - land use change works. Investigating the potential for land use changes (such as catchment thinning and increased runoff due to increased impervious surfaces as a result of urban expansion) to generate water savings.
 - Investigate potential waterway and catchment improvement projects to be implemented as an urban "liveability" project, integrating the current approaches to wellbeing being developed by the ACT and demonstrating the importance of the natural environment being the foundation of a well-planned and liveable city. This may include naturalisation of identified urban (concrete) waterways, large scale riparian rehabilitation program and/or any other project identified in consultation with targeted stakeholder groups.
22. Other than the SRA, undertaking the business cases/feasibility studies does not commit the ACT Government to transferring water entitlements to the Commonwealth. This will be considered in subsequent schedule(s) after the business cases have been considered by the ACT Government.

Next steps

23. EPSDD will develop the abovementioned water efficiency business cases for possible participation in the MDBWIP. It is anticipated that this will be completed by 1st Quarter 2020 and will be provided to the ACT Government in the 2nd quarter 2020 to determine the level of involvement that the ACT Government wishes to have with the MDBWIP.
24. A brief will be prepared to enable you to issue new water entitlements to EPSDD that can be traded to the Commonwealth government. It is proposed that these entitlements will be issued in the Lower Molonglo sub-water management area, which is at the bottom end of ACT waterways, to minimise impacts to existing water users. A waiver on the usual fees associated with the issuing of these entitlements will be sought from the Treasurer.

SENSITIVE: CABINET

25. EPSDD will continue to negotiate with the Commonwealth on the possible transfer of 4.9 GL of water entitlements to resolve the Shared Reduction Amount SRA commitments under the Murray-Darling Basin Plan. Any revenue received will be applied consistent with the MDB Minco decision of June 2018, integrating water security measures with waterway improvement activities.

Financial Implications

26. The ACT has been offered up to \$1.5 Million for business case development.
27. Should the business case development lead to the transfer of entitlements to the Commonwealth the current value, based on the market price of high security water entitlements and the 1.75 multiplier, is in the vicinity of \$10.5 million to \$12.25 million per GL. In the case of the 4.9 GL for the SRA mentioned in points 4 to 8 above, subject to valuation, this could amount to \$51.5 million to \$60 million.
28. In addition to this, every GL of entitlement transferred to the Commonwealth is expected to be subject to the Water Abstraction Charge (WAC) returning approximately \$287,000/GL/year to the ACT Government. In the case of the 4.9GL, this would amount to \$1.40 million per annum. The WAC is indexed at three percent per annum. The Program provides an opportunity for the ACT Government to reduce its per capita water use (and therefore water extraction) and maintain WAC revenue.
29. The MDBWIP is funded from the Commonwealth Water for the Environment Special Account (WESA) meaning that the funds provided must be expended against water efficiency and waterway/catchment works identified on the Commonwealth funding agreements.

Consultation

Internal

30. EPSDD Legal Services have reviewed the draft Project Agreements.

Cross Directorate

31. The Directors-General Water Group have been briefed on the progress of the abovementioned activities in November 2018 and May 2019 and provided their endorsement.
32. EPSDD has briefed the Social Policy and Commonwealth State Relations Branch within CMTEDD.

External

33. A Project Steering Committee (EPSDD and CMTEDD (Treasury)) and a Project Working Group (EPSDD, CMTEDD, EPA and Icon Water) provide oversight for the project.
34. Icon Water have been consulted extensively in developing the methodology to transfer entitlements to the Commonwealth in a way that will minimise impacts on ACT water security (point 36. below).

Benefits/Sensitivities

35. The MBDWIP has the potential for the development of a sustainable funding stream for water and catchment management which aligns with a number of recommendations in Government endorsed documents including the ACT and Region Catchment Strategy, ACT Water Strategy 2014-44 Striking the Balance and the ACT Auditor-General's Report into the Restoration of the Lower Cotter.

36. The transfer of unused water entitlements to the Commonwealth for environmental purposes (rather than “trades” for other consumptive uses) aligns with the objectives of the ACT Water Strategy.
37. The perception that the transfer of water entitlements may diminish the ACT’s water security may be contentious with some sectors of the community. However, the risks are considered low as ACT’s participation in the MDBWIP is intended to be in a manner that maintains long term water security for ACT water users (see points 9 and 10). This involves:
- Proposing that entitlements be provided from the water management area in the lower reaches of the ACT Molonglo/Murrumbidgee River (i.e. below the water storages) meaning there would be no impact on the <5% water restrictions Level of Service target. This also reduces perceived risks to ICON Water.
 - Noting that current impact projections for the SDL demonstrate that the limit will not be reached until the ACT population grows to over 1.2 million people in 75 to 100 years. As the funds received from the Commonwealth for transferred water entitlement are to be invested in water savings projects to offset the transfer of entitlements, the population and date of the SDL being reached is not expected to change.
38. Icon water may have sensitivities regarding investments in water efficiency in terms of potential to reduce their revenue from water sales, however improving water efficiency is an agreed and clearly stated government priority in the ACT Water Strategy, and water use is still expected to increase as a result of population growth, albeit at a slower rate.

Media Implications

39. A Communication and Engagement Strategy has been developed and will be refined with the Minister’s office.

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Action Officer: Matt Kendall Phone: 57200

Summary of Attachments

- 1 – Final Discussion paper
A – 2019 Canberra Water Savings Prospectus